



The Pakistan Credit Rating Agency Limited

Rating Report

Samba Bank Limited | PPTFC

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Dec-2020	AA-	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Samba Bank has a very strong Capital Adequacy Ratio (“CAR”) (Dec19: 18%, Sep20:19.6%). This reflects the impeccable risk absorption capacity, which is integral to the rating. The deposit base of the Bank suggests room for further improvement and deposit mobilization in order to strengthen Bank’s Advances-to-Deposits ratio and overall liquidity profile. With the issue of this TFC, the bank intends to augment its growth in high-yielding lending segments while creating a reasonable buffer in its capital ratios for risks that may emerge from the ongoing COVID-19 and its consequential stress on the businesses. The bank has a growth stance in the future and particularly intends to target the small and medium enterprises wherein the Bank has expanded outreach. The parentage of the Bank is already strong, and with the envisaged merger of Samba Financial Group of Kingdom of Saudi Arabia (bank’s parent entity) and National Commercial Bank of Kingdom of Saudi Arabia on the horizon, the Bank is well poised to take the positive benefits in Pakistan.

The risk metrics and the compliance ratios are well in range and further adherence will be important. The rating is dependent on the Bank’s sustained risk profile. In the wake of heightened competition, profitable growth while retaining the relative positioning in the industry will be a challenge. The equity base of the bank is satisfactory.

Disclosure

Name of Rated Entity	Samba Bank Limited PPTFC
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology FI (Jun-20),Methodology DI Basel III(Jun-20)
Related Research	Sector Study Commercial Bank(Jun-20)
Rating Analysts	Muhammad Fahad Iqbal fahad.iqbal@pacra.com +92-42-35869504



Profile

Structure Samba Bank Limited (“Samba Bank”) is a banking company listed on Pakistan Stock Exchange. In 2007, Samba Financial Group (SFG) of the Kingdom of Saudi Arabia acquired a 68.4% stake in Crescent Commercial Bank Limited (CCBL), CCBL was re-branded as Samba Bank Limited in 2008.

Background SFG currently holds an 84.51% stake in Samba Bank Limited. In Pakistan, Samba Bank is classified as a small to mid-sized bank with a market share of 0.5% (2018: 0.5%) in deposits.

Operations The Bank is mainly engaged in Corporate, Commercial, Treasury, Retail & Consumer banking activities. The Bank has a network of 40 branches as of September 2020 (CY19: 40) in Pakistan and maintains its digital presence through digital mobile banking applications and internet banking. Its registered office is situated in Islamabad.

Ownership

Ownership Structure Samba Bank is a subsidiary of SFG, incorporated in the Kingdom of Saudi Arabia holding 84.51% of the Bank’s shares. The remaining stake in the Bank is held by the general public, insurance companies, modaraba, mutual funds and others.

Stability SFG was established in 1980 in Saudi Arabia with the takeover of Citibank branches in Jeddah and Riyadh. In 2007, SFG entered in Pakistani banking industry and acquired 68.4% stake of CCBL, and since then has increased its stake to 84.51% in the Bank.

Business Acumen The business acumen of the Bank is considered strong. Samba Bank is engaged in a diverse set of activities with its liability and assets product bouquet designed to attract a varied customer base including large corporates, small and medium enterprises and individual customers. In June 2020, VIS reaffirmed the long-term entity credit rating of the Bank at AA rating with a stable outlook.

Financial Strength The bank draws its strength from its strong equity base, capital ratios and support from Bank’s parent entity Samba Financial Group (SFG). SFG is one of the largest banking groups in Kingdom of Saudi Arabia (KSA). In CY19, total asset size of SFG stood at SAR 255.6b (USD 68.1bln) (2018: SAR 229.9b (USD 61.3bln)), while Tier I equity amounted to SAR 46.9b (USD 12.5bln) (2018: SAR 44.3bln (USD 11.8bln)).

Governance

Board Structure Samba Bank’s Board of Directors (BoD) comprises of nine members who are qualified and experienced professionals. The Board comprises of one executive director, five non-executive directors and three independent directors.

Members’ Profile The Chairman of the board, Dr. Shujaat Nadeem also serves as the Deputy CEO for Business for Samba Financial Group (SFG) since 2019 and the Chairman of Samba Global Markets Limited since 2016. His career before Samba was with Citigroup where he held senior positions in US and UK. Dr. Nadeem did his undergraduate and graduate degrees from USA. He holds a Ph.D., MSc. and BSc. from Massachusetts Institute of Technology (MIT).

Board Effectiveness The Bank has a process in place to evaluate and enhance the overall effectiveness of the BoD, its Committees, and individual directors on an annual basis. During CY19, five board meetings were held. Overall attendance of board members in these meetings was satisfactory.

Transparency The Bank’s external auditors, M/s A.F. Ferguson & Co. Chartered Accountants, have expressed an unqualified opinion on the Bank’s financial statements for the year ended Dec19. With effect from April 21, 2020, the bank has appointed KPMG Taseer Hadi & Co. Chartered Accountants as the external auditors. The interim financial statements for the six months ended June 2020, were reviewed by M/s KPMG who expressed an unqualified conclusion on these interim financial statements.

Management

Organizational Structure The Bank operates through a well-defined organizational structure with Mr. Shahid Sattar, the President / CEO, leading the executive team comprised of seasoned and experienced banking professionals having ample expertise of their respective departments/ business groups.

Management Team Mr. Shahid Sattar is the President & CEO of Samba Bank. He joined Samba Bank in 2013 and brought with him four decades of experience in the local and global banking and financial industry. Mr. Sattar’s experience lies in Retail Banking, Consumer Finance, Branch Operations, Cash Management, Remittance Business, SME and Commercial, Corporate and Islamic Banking. Prior to joining Samba Bank, he served as the head of retail function in United Bank Limited.

Effectiveness A fourteen-member Executive Team comprising of the CEO, and Group Heads of each business and support function, is responsible for the supervision and control of the bank’s affairs.

MIS Samba Bank has deployed Temenos T24 (T24) as its centralized core banking system. It includes all the basic modules including branch banking, trade finance, corporate loans and anti-money laundering.

Risk Management Framework The risk management department at Samba Bank is segregated into four sub-divisions, which include corporate credit risk, consumer risk, market risk and operational risk. Management level committees such as Integrated Risk Management Committee (IRMC), Management Credit Committee (MCC), Country Risk and Compliance Committee (CRCC) and Asset and Liability Committee (ALCO), are in place to further strengthen the controls environment of the Bank.

Business Risk

Industry Dynamics As a result of general economic slowdown most indicators of the banking sector reflected mixed trend. Deposits of the banking sector stood at ~PKR 17.5 trillion as at 9MCY20, showing a growth of ~10% YoY. Deployment of funds was largely skewed towards investments and particularly towards government instruments due to favorable interest rate dynamics at ~PKR 11,486bln showing a robust growth of 28.5%. Meanwhile, advances witnessed a slowdown owing to subdued demand, cautious lending approach and monetary tightening. This was only a growth of 1% and clocked at ~PKR 7,887bln. Non-performing loans (NPL’s) grew by 12% in 9MCY20: PKR 853bln. The profitability of the banking sector improved due to an increase in Net Interest Income, which translated positively in other profitability indicators. The overall risk profile of the banking sector remained satisfactory.

Relative Position Samba Bank, a small-sized bank, has witnessed an increase of 8.7% in its customer deposits in 9MCY20. In terms of net advances, a slight decline of 1.8% was observed which is on the lower side as compared to the industry.

Revenues During 9MCY20, Overall revenue growth was ~22% YoY with significant increase in income from investments (~72%). The bank’s markup expense increased attributable to a significant increase in the Bank’s borrowings. Bank earned net mark-up income of ~PKR 2.8bln (9MCY19: ~PKR 2.6bln).

Performance PBT of Samba Bank clocked in at PKR 1.5bln in 9MCY20 (9MCY19: PKR 915mln) primarily due to gain on securities and foreign exchange income. The Bank’s operating expenses increased by 12% over 9MCY20 from the comparative period last year mainly due to normal increments in employee compensation as well as the increase in business activity. The PAT for 9MCY20 increased by 78% over comparative period last year.

Sustainability Samba Financial Group (SFG), parent entity of the Bank, has entered into a legally binding merger agreement with National Commercial Bank (NCB) of Saudi Arabia on 11 October 2020. Consequently, upon completion of the merger, the shares of Samba Bank Limited held by SFG will be transferred to the merged entity.

Financial Risk

Credit Risk The procedures for management of credit risk are set in line with the directives of State Bank of Pakistan, and relevant policies approved by the Board of Directors of the Bank. At 9MCY20 the Bank recorded ADR of 78.7%. The Bank NPL’s remained at PKR 2.7bln. The infection ratio also remained stagnant at 4.2% while the coverage ratio was reported at 105.1%.

Market Risk SBL’s investment portfolio showed an increase of 26% to reach PKR 65bln at the close of September 2020 (CY19: PKR 51bln). The bank’s investment portfolio constitutes of 95% government securities, comprising of PIBs. Bank’s investment in debt instruments account for around PKR 2bln as at September 2020 (CY19: PKR 2.4bln).

Liquidity And Funding Bank’s liquidity position improved as reflected in the liquidity ratio at (9MCY20: 51.8% CY19: 40.3%). SBL’s proportion of CASA deposits reflected a slight decrease from 47% in FY19 to 43% in 9MCY20, whereas, the term deposit (with a growth of 14.1% in 9MCY20, provides a stable core funding base for the Bank.

Capitalization At the close of 9MCY20, Bank’s total equity stands at PKR ~15bln (CY19: PKR 14bln). SBL’s CAR during the period increased to 19.6% in 9MCY20 (CY19: 18%) which is well above the regulatory requirement of 11.5%.



PKR mln

Samba Bank Listed Public Limited	Sep-20	Dec-19	Dec-18	Dec-17
	9M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	62,339	63,762	55,683	41,347
2 Investments	62,723	48,887	45,838	61,738
3 Other Earning Assets	10,960	5,240	11,436	6,433
4 Non-Earning Assets	10,252	11,703	9,715	8,691
5 Non-Performing Finances-net	(137)	(14)	93	15
Total Assets	146,138	129,577	122,765	118,224
6 Deposits	76,560	71,882	65,225	54,901
7 Borrowings	47,782	36,114	39,781	46,201
8 Other Liabilities (Non-Interest Bearing)	6,474	7,402	4,975	4,412
Total Liabilities	130,816	115,398	109,981	105,515
Equity	15,321	14,179	12,784	12,708

B INCOME STATEMENT

1 Mark Up Earned	10,768	12,791	7,556	7,256
2 Mark Up Expensed	(7,944)	(9,272)	(4,847)	(4,897)
3 Non Mark Up Income	1,160	846	772	715
Total Income	3,984	4,365	3,480	3,074
4 Non-Mark Up Expenses	(2,212)	(2,763)	(2,302)	(2,042)
5 Provisions/Write offs/Reversals	(270)	(502)	(68)	(101)
Pre-Tax Profit	1,502	1,100	1,110	931
6 Taxes	(579)	(414)	(427)	(192)
Profit After Tax	923	686	683	739

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	2.7%	2.8%	2.2%	2.0%
Non-Mark Up Expenses / Total Income	55.5%	63.3%	66.2%	66.4%
ROE	8.3%	5.1%	5.4%	5.8%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	10.5%	10.9%	10.4%	10.7%
Capital Adequacy Ratio	19.6%	18.0%	19.0%	19.7%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	51.8%	40.3%	36.8%	51.6%
(Advances + Net Non-Performing Advances) / Deposits	78.7%	85.4%	82.2%	73.2%
CA Deposits / Deposits	21.2%	23.4%	25.4%	22.7%
SA Deposits / Deposits	20.1%	22.3%	29.3%	33.9%

4 Credit Risk

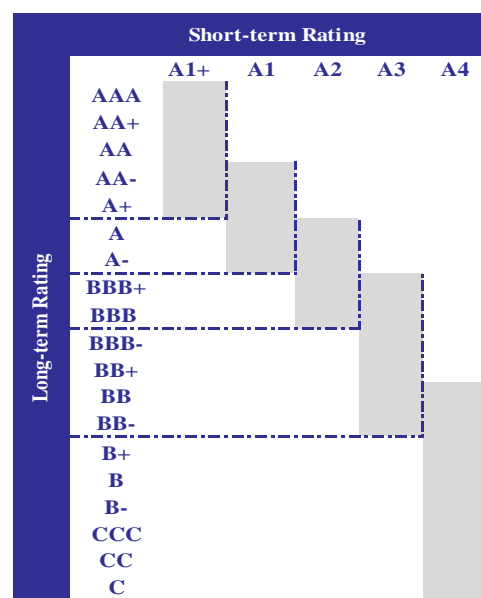
Non-Performing Advances / Gross Advances	4.2%	4.2%	4.3%	5.5%
Non-Performing Finances-net / Equity	-0.9%	-0.1%	0.7%	0.1%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying debt instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA	
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B	
B-	
CCC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion on debt instrument is carried out on an ongoing basis till the maturity of the instrument or cessation of contract. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Years	Security	Quantum of Security	Nature of Assets	Book Value of Assets (PKR mln)	Trustee
TFC - Tier II	PKR 5,000mln (inclusive of Green Shoe option of PKR 2,000mln)	10 years	The TFC Issue will be unsecured, subordinated as to payment of principal and profit to all other indebtedness of the Bank, including deposits and is not redeemable before maturity without prior approval of the SBP. Moreover, the investors shall have no right to accelerate the repayment of future scheduled payments (interest or principal) except in bankruptcy and/or liquidation	N/A	N/A	N/A	Pak Oman Investment Company Limited

Samba Bank Limited | TFC | Tentative Redemption Schedule

Installment Due Date	Principal Payable	Interest rate	Installment		Principal Outstanding
			Markup/Profit Payment (6MK+1.35%)	Total	
			PKR in mln		
Issue Date		%			1,000,000
6 Months from the Issue Date	200	8.55%	42,750	42,950	999,800
12 Months from the Issue Date	200	8.55%	42,741	42,941	999,600
18 Months from the Issue Date	200	8.55%	42,733	42,933	999,400
24 Months from the Issue Date	200	8.55%	42,724	42,924	999,200
30 Months from the Issue Date	200	8.55%	42,716	42,916	999,000
36 Months from the Issue Date	200	8.55%	42,707	42,907	998,800
42 Months from the Issue Date	200	8.55%	42,699	42,899	998,600
48 Months from the Issue Date	200	8.55%	42,690	42,890	998,400
54 Months from the Issue Date	200	8.55%	42,682	42,882	998,200
60 Months from the Issue Date	200	8.55%	42,673	42,873	998,000
66 Months from the Issue Date	200	8.55%	42,665	42,865	997,800
72 Months from the Issue Date	200	8.55%	42,656	42,856	997,600
78 Months from the Issue Date	200	8.55%	42,647	42,847	997,400
84 Months from the Issue Date	200	8.55%	42,639	42,839	997,200
90 Months from the Issue Date	200	8.55%	42,630	42,830	997,000
96 Months from the Issue Date	200	8.55%	42,622	42,822	996,800
102 Months from the Issue Date	200	8.55%	42,613	42,813	996,600
108 Months from the Issue Date	200	8.55%	42,605	42,805	996,400
114 Months from the Issue Date	498,200	8.55%	42,596	540,796	498,200
120 Months from the Issue Date	498,200	8.55%	21,298	519,498	0
	1,000,000		832,086	1,832,086	

Tentative Redemption Schedule for the TFC based on a minimum investment of PKR 1,000,000/, calculated on the basis of a profit rate of 7.2%, i.e. Base Rate + 135 bps. The Base Rate used for the calculation of the Redemption Schedule herein is 7.2%, which was the average 6-month KIBOR Ask Side rate as of 18th November, 2020.